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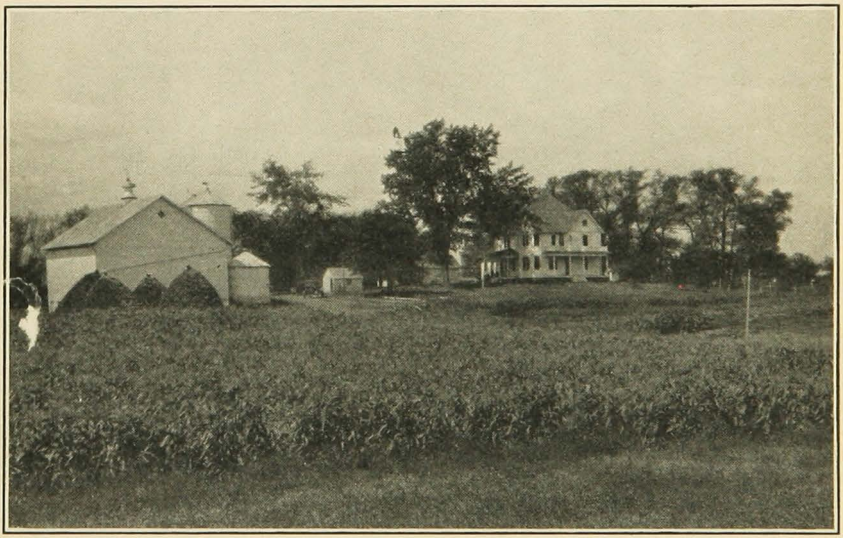
SUGGESTIONS TO PURCHASERS OF FARMS

W. L. CAVERT AND G. A. POND
DIVISION OF AGRICULTURAL ECONOMICS



UNIVERSITY FARM, ST. PAUL

SUGGESTIONS TO PURCHASERS OF FARMS

W. L. CAVERT AND G. A. POND

Buying a farm is a momentous transaction in the life of the average farmer. Some one has said, "Getting a good producing farm is next in importance to getting a wife that is a good help-mate."

If one selects a farm that is naturally of low productivity because of sandy or gravelly soil or poor drainage, he is almost certain to find himself at a serious disadvantage as compared with farmers on good soils, even if the poor soil is bought at what appears to be a low price. It seems to be a human failing to over-value poor land. The figures in the latter part of this publication, as well as other data, support the conclusion that poor land is usually over-valued as compared with good land.

The authors have had opportunity to check the earnings of capable farmers on both poor and good soils. The advantage in nearly every case has been with the good soil, even tho it was valued at a substantially higher figure than the poor soil. In one case, the crops produced by a capable operator over a five-year period would, at pre-war prices and interest at five per cent, have given the land an earning value of $31.25 per acre. One of the better farms in the same region had an earning value of $95.00 per acre. The owner of the first farm bought it at what he considered a bargain price from a person who had acquired it on foreclosure. He was told that the previous owner had lost it because he was a poor manager, but he has now concluded that the soil had much to do with the foreclosure. The soil had been tile-drained and the purchaser assumed that all drained land was naturally productive, if the drainage was adequate. However, he has averaged 45 bushels of corn and 30 bushels of oats, whereas the other farm referred to has yielded 54 bushels of corn and 59 bushels of oats. Forty-five bushels of corn per acre might appear to be a fairly satisfactory yield, but that yield was obtained by planting a limited acreage on the better areas of the farm. Assuming that the extra bushels of corn and oats are secured with the same labor as the lower yields, it is apparent that if the average value of the two grains is 35 cents per bushel, the 6⅓ extra bushels the landlord receives gives an extra return of $2.22 per acre or the interest at five per cent on $44.50.

SIZING-UP A FARM

There is no one infallible guide as to the value of any particular tract of land. Aid in forming an opinion, however, may be had from the following: soil maps; condition of growing crops; kind of crops;

financial record of previous operators; amount of livestock that has been carried; opinions of neighbors, county agents, and extension specialists; buildings; location, and amount of unimproved land.

Soil maps.—Soil maps are a great aid in judging the value of land. The best way to get acquainted with soil maps is to check the map against soils with which one is thoroly familiar. If one finds, for example, that a certain soil with which he is familiar is mapped as Carrington loam, Barnes clay loam, or Fargo clay loam, he knows, in a general way, what to expect in another piece so named on the map. However, one needs to keep in mind that there may be a good deal of variation, brought about by the use of manure or by the growing of clover on any particular tract. In a rolling section, erosion of the top soil may have occurred after the map was made. One should also remember that there is noticeable variation in natural productivity within an area that may all have the same designation on the map.

Condition of growing crops.—If one can see a farm in the crop-growing season, he can compare the condition of the crops with that of other farms in the region. He can also get information on possible drainage difficulties, as any poorly drained areas are likely to show effects in poor crop growth unless the season has been a dry one. In examining growing crops early in the season, it is well to remember that crops on sandy soil frequently show up much better early in the season than at harvest time. If possible, one should inspect a farm in the growing season for several years before he makes a purchase, so that he may see how the farm stands both wet and dry weather. If one sees a farm in one season only, he should make careful inquiry as to how the season in which the inspection is made compares with the average in rainfall and temperature. Assistance of this kind can be obtained from the nearest office of the United States Meteorological Service. There are such offices in Minneapolis, Duluth, and Moorhead, Minnesota. If for any reason one does not have an opportunity to see a farm in the crop-growing season, he should remember that it is much easier in other parts of the year to overlook poor drainage and serious infestation with quack grass, creeping jennie, sow thistle, wild oats, spurge, and Canadian thistle than in the crop-growing season. This is particularly true if the land has been freshly plowed.

Kind of crops.—The kind of crops grown gives some clue to the character and condition of the soil. In general, a large acreage of corn, wheat, alfalfa, and barley in good condition suggests a productive soil. Outside of the cornbelt, a considerable acreage of oats may suggest a soil that is not well adapted to barley or wheat. A large acreage of rye usually suggests a soil that is not well adapted to barley or wheat.

Financial record of previous operators.—If previous operators have bought on a small down payment and paid for a farm from earnings, the indication is highly favorable. If a farm has been operated by a tenant, the accumulation of enough money to make a substantial down payment on a farm is fair evidence of financial success. If an owner or tenant has been unable to make financial progress, the cause may have been poor business management, poor health, bad habits, an expensive family, or something else of like kind, but when one is told that the lack of financial success of previous operators has resulted from causes outside of the farm, he should make careful investigation before accepting such an explanation.

Amount of livestock that has been carried.—In a section where crops are largely fed to livestock, information as to the number of animals that have been carried may be helpful. If one knows that a certain farm has carried 20 cows, 15 young stock, and 80 hogs to an average of 250 pounds, and that the feed has been raised on the farm, he knows that it is a much more productive farm than one that has raised only half that amount of livestock and had but little sale of cash crops. The number of stanchions and the size of the granaries and cribs may give a suggestion of the carrying capacity of a farm. Records of production of farmers who have co-operated in the wheat and corn-hog control programs are available in the offices of the local Control Association. Sometimes permission may be obtained to check the sales of a farm at the office of the local creamery and elevator.

Opinions of neighbors and others.—Disinterested opinions of neighbors are valuable, but sometimes it is difficult to be certain that they are disinterested. The same may be said of information from bankers and professional real estate men. County agricultural agents and members of the staff of the University Department of Agriculture can give disinterested information, but may not be familiar with the particular tract under consideration.

Buildings.—In selecting a farm, perhaps the most fundamental consideration is to get good soil. If one gets poor soil, the proposition may be hopeless even if the buildings are excellent. With good soil, one may possibly erect suitable buildings from earnings. However, in recent years, it has been cheaper to buy the buildings with the farm than to erect them. It is particularly important to have a house in which one's family will be comfortable. Poor barns cause much inconvenience and extra work in doing chores, but frequently the differences in livestock production are not large, if one makes real effort to make the stock comfortable by the use of building paper, banking with straw, etc. Hogs, sheep, and beef cattle may be wintered in a straw shed as well as in a

good building, if the pigs, lambs, and calves do not come until warm weather. A good granary for the storage of feed and seed grain, and a good corn crib, if corn is raised, are two buildings that are not particularly costly, but that, perhaps, give a better return on the investment than almost any other building.

Location.—A desirable location is of decided importance in getting a satisfactory home. Location also has an important bearing on earning power. It is highly desirable to be near good schools and churches of the denomination that one prefers. Many people also attach considerable importance to being near relatives. A farm that is on a road that is likely to be impassable at certain seasons makes an undesirable home, as during such seasons one may be almost entirely shut off from medical service, neighbors, and markets. Main-traveled roads near the larger towns frequently offer opportunity for the direct marketing of products.

Unimproved land.—Under conditions that have prevailed for several years, it has been much cheaper to buy a farm that is a going enterprise than to buy land and provide it with buildings, a water system, fences, and drainage, in addition to removing stumps and stones. Certainly, there is no economic justification for bringing raw land into cultivation when improved farms of equal productivity can be purchased for less than the cost of clearing the land. A purchaser should be especially observant of the presence of stone on a farm he is considering. Surface stones are easily detected, but stones beneath the surface may as easily be overlooked, especially by one lacking previous experience with stony land. The inexperienced person is likely not only to overlook sub-surface stone, but also to underestimate the seriousness of its interference with tillage operations and the cost of its removal.

Advantages and Disadvantages

If, after one has inspected a farm, he feels that it is entitled to consideration, he would do well to estimate the total cost of the farm, including purchase price, the cost of making needed repairs to buildings, fences, and wells, and the cost of eradicating noxious weeds. In comparing the prices of two farms, one of which is in good repair, with clean fields in a good state of cultivation, and the other of which has buildings in poor repair and fields that are in a poor state of cultivation, a farmer should keep in mind the fact that there may be a substantial loss of income while the fields and buildings are being put into shape.

One method of estimating the value of a farm is to figure the income from the landlord's share of the crop, deducting the expenses that are customarily paid by the landlord. What remains is the landlord's

net return on his investment. If his net return is $400, and it is estimated that land should sell on a basis where it will earn five per cent, the farm should be worth $8,000. That amount at 5 per cent would return $400 annually.

The return from farm operations is ordinarily made up of pay for the land and for the labor and equipment. If land is customarily rented for a third of the crop, this means that landlord and tenant have in effect agreed that one-third of the crop should go as compensation for the use of the land and that two-thirds of it should go as pay for the labor and equipment.

EVALUATING A PARTICULAR FARM

The figures in Table 1 illustrate the application of this method to a particular farm that happens to be in a section where the landlord usually gets one-third of the corn and small grain. Hay land is usually rented for cash, but on some farms it is rented for one-third of the wild hay and one-half of the alfalfa and tame hay.

Table 1

Value of Landlord's Share of Crop, Based on 1909-1914 Minnesota Farm Prices

Crop	Acres	Yield per acre	Total production, bu. or tons	Price per bu. or ton	Total value of product	Value of landlord's share
Corn	56.6	50.0	2,831	$ 0.52	$1,472.12	$ 490.71
Oats	35.2	56.6	1,989	0.36	716.04	238.68
Barley	19.8	52.8	1,046	0.50	523.00	174.33
Flax	0.8	5.0	4	1.66	6.64	2.21
Tame hay	8.2	1.76	14.4	8.00	115.20	57.60
Alfalfa	9.4	3.32	31.2	10.00	312.00	156.00
Wild hay	26.3	1.48	38.6	6.00	231.60	77.20
Pasture	27.2	....	....	....	.....	114.56*
Roads and buildings	15.0	....	....	....	.....	.....
Total	198.5	....	....	....	.....	$1,311.29

* The pasture was estimated to be worth $0.70 per month for a mature cow or equivalent amount of other livestock.

The expenses chargeable to the landlord were as follows: Taxes, $211.05; insurance, $10.31; depreciation and repairs on buildings and fences, $221.12; grass seed, $65.78; total, $508.26.

The receipts of $1,311.29 less expenses of $508.26 leaves a net income of $803.03. This capitalized at five per cent ($803.03 ÷ .05 = $16,060) gives a value of $16,060, or $80.91 per acre. If one wished to assume that the expense for repairs, depreciation and insurance on house, buildings, and fences, amounting to $231.43, was properly chargeable to the livestock that used the barns and fences and to personal ex-

penses of the farm family living in the house, then one would raise the capitalized value $23.32 per acre, or to a total of $104.23 per acre. However, ordinarily farms are rented as a unit. The house, barns and fences are usually furnished without extra charge. But in many cases tenants have to put up with buildings that are in poor repair and less ample than on the farm under consideration. The buildings and fences on this farm are inventoried at $6,873. The particular prices of $0.52 per bushel for corn, $0.36 per bushel for oats, $0.50 per bushel for barley, and $1.66 per bushel for flax, are the average prices that prevailed at local points in Minnesota for the five-year period, August, 1909, to July, 1914, inclusive. The figures of $8.00 per ton for tame hay, $6.00 per ton for wild hay, and $10.00 per ton for alfalfa are arbitrary figures that are thought to represent the pre-war situation. Pasture was figured at 70 cents per month per cow or equivalent amount of livestock. The 1909-1914 period is the one that has been assumed to be normal by the Farm Credit Administration in carrying out the instructions of Congress to make loans on the basis of normal prices of farm products.

What Value Does This Method Give?

It is of interest to see the results obtained by applying this method of valuation to representative farms. Complete figures for the years 1928-1932, inclusive, for 32 farms in Dodge, Freeborn, Goodhue, Rice, Steele, and Waseca counties are available from the Southeast Minnesota Farm Management Service. These figures include a detailed report of the quantities of various crops produced and a complete record of sales and expenses. If one can allocate a certain portion of the income to cover the charges for labor, machinery, taxes, building upkeep, and other operating expenses, the remainder is the net income which may be capitalized in land values.

To arrive at a figure that would indicate the capital value of these southeast Minnesota farms on the basis of 1909-1914 values, each farm was arbitrarily assigned a rental basis of one-third or two-fifths of the corn and small grain crops, according to the practice prevalent in the immediate locality. Crops such as canning peas, sweet corn for canning, and sugar beets were estimated to have the same rental value as the field corn on the same farm, but the yield per acre of silage and fodder corn was assumed to be only 80 per cent of that of the field corn. For example, if on a certain farm the field corn returned 40 bushels per acre, the rental value of silage and fodder corn was estimated on the basis of 32 bushels, to be divided between landlord and tenant. This was done because corn that could not be planted in time to make a grain crop is frequently used for silage or fodder. The rental value of

Table 2

Value of Farm Land, Based on Landlord's Net Income Capitalized at Five Per Cent

Farm No.	Acres in farm		Share rent basis	Crop index	Income and expense assigned to landlord			Capitalized value at 5%	
	Total	Crop			Gross income	Expense	Net income	Per farm	Per acre
1	80.0	53.7	1/3	98	$ 450.48	$ 336.78	$ 113.70	$ 2,274.00	$28.43
2	156.0	105.6	1/3	89	685.03	441.25	243.78	4,875.60	31.25
3	240.0	175.1	1/3	86	1,043.21	663.95	379.26	7,585.20	31.60
4	248.0	142.0	1/3	87	1,003.40	589.54	413.86	8,277.20	33.38
5	160.0	102.1	1/3	93	635.33	355.68	279.65	5,593.00	34.96
6	145.0	81.1	1/3	104	632.07	371.70	260.37	5,207.40	35.91
7	163.0	88.6	1/3	129	773.60	460.64	312.96	6,259.20	38.40
8	240.0	164.8	1/3	91	1,150.06	681.55	468.51	9,370.20	39.04
9	200.0	135.9	1/3	94	962.85	570.92	391.93	7,838.60	39.19
10	160.0	109.2	1/3	86	681.63	359.56	322.07	6,441.40	40.26
11	450.0	337.7	1/3	95	2,205.91	1,296.47	909.44	18,188.80	40.42
12	110.0	71.1	1/3	112	615.71	380.38	235.33	4,706.60	42.79
13	93.0	59.4	1/3	102	474.84	240.37	234.47	4,689.40	50.42
14	320.0	233.8	1/3	92	1,676.48	840.52	835.96	16,719.20	52.25
15	110.0	79.6	1/3	115	726.59	396.73	329.86	6,597.20	59.97
16	122.5	80.7	1/3	101	714.41	346.12	368.29	7,365.80	60.13
17	160.0	104.7	1/3	94	779.35	297.66	481.69	9,633.80	60.21
18	372.0	272.3	1/3	113	2,236.54	1,065.48	1,171.06	23,421.20	62.96
19	80.0	63.0	1/3	126	618,60	365.25	253.35	5,067.00	63.34
20	130.0	89.2	2/5	104	722.76	283.76	439.00	8,780.00	67.54
21	227.5	152.0	1/3	117	1,461.64	681.03	780.61	15,612.20	68.62
22	240.0	178.0	2/5	111	1,642.45	814.42	828.03	16,560.60	69.00
23	117.5	84.9	2/5	121	861.76	443.01	418.75	8,375.00	71.27
24	158.0	105.6	2/5	109	1,007.60	401.50	606.10	12,122.00	76.72
25	198.5	156.3	1/3	121	1,282.48	508.26	774.22	15,484.40	78.01
26	132.0	74.4	2/5	129	1,080.08	540.67	539.41	10,788.20	81.73
27	224.0	187.3	2/5	111	1,683.05	732.26	950.79	19,015.80	84.89
28	220.0	173.6	2/5	112	1,744.88	801.24	943.64	18,872.80	85.78
29	200.0	141.6	2/5	117	1,598.91	701.03	897.88	17,957.60	89.79
30	160.0	114.1	2/5	120	1,115.14	367.58	747.56	14,951.20	93.45
31	240.0	192.6	2/5	121	1,957.31	828.08	1,129.23	22,584.60	94.10
32	240.0	181.2	2/5	138	2,264.65	1,114.37	1,150.28	23,005.60	95.86
Average	190.5	134.0	—	107.4	$1,140.27	$ 571.18	$ 569.09	$11,381.80	$59.43

tame hay, such as alfalfa and clover, was estimated at one-half the crop. Wild hay on low-lying areas was figured on the basis of one-third to the landlord and two-thirds to the tenant.

Based on these assumptions, the figures in Table 2 show the capitalized value of these farms on the basis of the sum upon which interest could be earned at a 5 per cent rate.

The crop index figure refers to the crop yield per acre on the particular farm as compared with the average of all farms co-operating in the Southeast Minnesota Farm Management Service project, taken as 100. The five-year average yields were as follows: Corn, 44.0 bushels; oats, 47.3 bushels; barley, 34.5 bushels; and alfalfa, 2.7 tons.

One of the striking features of the data is the fact that the capitalized values of the 32 farms vary from $28.43 to $95.86 per acre even tho no distinctly inferior farms are included. Some of the factors that apparently contribute to this wide variation in value are the following: Variations in crop yields, variations in the proportion of tillable land, variations in size, variations in the adaptation of the land to the more profitable crops such as corn and alfalfa, variations in building charges, and variations in taxes due to varying levies for school district, township, and county expenses.

Variations in crop yields.—Variation in crop yields is one of the most important factors causing variation in land values. This is indicated in Table 3. An index of crop yields, as already explained, is used to measure the relative yields of crops on different farms. Farms yielding 15 per cent or more above the average of the group of which they are a part have a value nearly double that of farms with yields 5 per cent or more below the average. For example, in this section a farm that yields 51 bushels of corn, 54 bushels of oats, 40 bushels of barley, and 3.1 tons of alfalfa is worth twice as much as one that yields 40 bushels of corn, 44 bushels of oats, 33 bushels of barley, and 2.5 tons of alfalfa.

Table 3

Relation of Crop Index to Capitalized Value of Land per Acre

Crop index		Number of farms	Value of land
Group	Average		
95 and under	90.7	10	$40.18
96 to 115	107.7	12	60.38
Over 115	123.9	10	77.46

Variations in proportion of tillable land.—The proportion of a farm that can be tilled has a marked bearing on the value of the farm. The effect of variations in this factor is shown in Table 4 and in the case of Farm 7 in Table 2. This farm had a crop index of 129, and the

value of the landlord's share per tillable acre was 46 per cent above the average of the 32 farms. However, because only about one-half the farm was tillable, the value of the landlord's share per acre, on the basis of total acres, was 21 per cent below the average of the group, and the value of the land per acre was 55 per cent below the average value of all the farms.

Table 4

Relation of Proportion of Farm that Is Tillable to Capitalized Value per Acre

Percentage of farm land tillable		Number of farms	Value of land
Range	Average		
Under 65	59.5	7	$45.25
65 to 69.9	67.3	10	51.14
70 to 74.9	72.8	9	63.41
75 and over	79.3	6	83.66

Variations in size of farms.—The farms with higher values per acre were in general the larger farms. This is indicated in Table 5. Since crop yields are also an important factor in affecting values, only farms with average yields or better are included in this comparison. The building investment and the building costs per acre were larger on the smaller farms, and this lowered the net return. This suggests that one should be cautious about paying a high price for a small farm because it has good buildings, if one must pay for the farm from earnings.

Table 5

Relation of Size of Farm to Capitalized Value per Acre

Acres per farm		Number of farms	Value per acre
Range	Average		
130 and under	109.0	7	$59.49
131 to 200	165.2	7	64.65
Over 200	251.7	7	80.17

Variations in the adaptation of the land to the more profitable crops.—In this section of the state crops such as corn, alfalfa, sugar beets, canning peas, and sweet corn for canning have proved more profitable on land to which they are adapted than have most other crops commonly grown. All land is not equally well adapted to these crops. The type of soil and topography of some farms may be such that corn growing is at a disadvantage. Alfalfa growing on low-lime soil involves extra expense and greater difficulty in maintaining a stand than on high-lime soils. Market outlets for sugar beets and canning crops are available only in certain localities. Before one evaluates a farm on the basis of markets for these special crops, he should investigate the permanence of these markets.

The landlord's income per acre, both gross and net, was increased with an increase in the proportion of the farm devoted to these profitable crops on the farms reported in Table 2. This increased return resulted in higher values per acre, as is shown in Table 6. In observing the cropping system of a particular farm, the prospective purchaser should determine whether the proportion of high-return crops is low either because the soil is not adapted to them, or markets are not available, or because the operator merely did not care to grow them. Land adapted to these crops, with an available market, should not be discriminated against merely because the present operator is not taking full advantage of his opportunities.

Table 6

Relation of Percentage of Farm in More Profitable Crops to Capitalized Value per Acre

Percentage of farm in more profitable crops		Number of farms	Value per acre
Range	Average		
Under 43	35.7	11	$46.10
43 to 48	44.9	11	57.89
Over 48	56.3	10	76.39

Variations in building charges.—The building investment per acre on these farms varied from $17.88 to $80.07. This wide variation resulted in a wide variation in the annual interest, depreciation, insurance, and tax charge. The larger the share of the gross income needed to cover these charges, the less will be left to capitalize into the value of the farm. In general, there was a larger investment per acre in buildings on the higher-valued farms, but the cost of the buildings did not increase as rapidly as did the income. Farm 1 illustrates the effect of high building charges. The gross income per acre was only slightly below the average of the group, but a large building charge reduced the net income below that of the other farms. Only one other farm, No. 26, has as large an investment per acre in buildings. Farm 26 has the next to the largest gross income per acre, but the net income is reduced by the high building charge. Of course, a farm with good buildings is usually to be preferred if one is paying little for the extra buildings and is not sacrificing good soil. However, the extra taxes and repairs may, in some cases, be a considerable load.

Variations in taxes.—The taxes varied from $0.86 to $2.15 per acre among these farms. In two counties the average tax per acre for the farms reported was $1.20. In two other counties it was $1.56 and $1.68. Even within a county the tax rate varied more than $1.00 per acre among different farms. These variations were due to differences in levies for school districts and township and county expenses.

The two counties having the high tax rates have high bonded indebtedness. The tax rate very materially affects the value of the farm. Five cents an acre added to the tax bill cuts a dollar from the capitalized value of that acre. There was a difference of $1.29 per acre between the highest and lowest tax rates among these farms. This accounts for a difference of $25.80 in value per acre.

The value of Farm 19 illustrates the effect of a high tax rate on capitalized value. This farm has high crop yields and a return per acre 29 per cent above the average of the group. Because of the high tax rate, $2.15 per acre, the net income of the farm per acre is only 7 per cent above the group average. Had the tax per acre on this farm been no higher than the average, the value of the land would be $78.74 per acre instead of $63.34. Tax rates have an important bearing on land values and should be carefully considered in the purchase of a farm.

What Is "Normal" Value?

The amendment to the Farm Loan Act, passed on May 12, 1933, established the basis of 50 per cent of the "normal" value of the land, and 20 per cent of the value of the permanent, insured improvements as limits for Federal Land Bank loans. The same Act authorized loans by the Land Bank Commissioner in certain cases whereby the total of Land Bank and Land Bank Commissioner loans would have an upper limit of 75 per cent of the "normal" value of the farm property. The Farm Credit Administration has interpreted "normal" value for appraisal purposes as the "productive" value of farm lands on the basis of August, 1909, to July, 1914, prices for farm produce. An appraisal on this basis may be lower than the actual sale value in 1909-1914. Confidence in advancing land values at that time was so great that land was bid up to a point where it yielded low current returns in terms of percentage of the sale price. Furthermore, the effect of higher taxes and cost of supplies at present must not be overlooked. Farm real estate taxes were 124 per cent above the 1913 level in 1932 and in March, 1934, the cost of supplies bought by farmers for use in production was 19 per cent above the 1910-1914 level. The increase in cast outlays, of course, may have been offset to some extent by shifts to more profitable crops such as corn and alfalfa, and by better knowledge of how to feed livestock and how to control livestock diseases and parasites and plant diseases and pests.

The figures from these farms indicate roughly the values that might be expected to prevail with prices of farm products at the 1909-1914 level, with an interest rate of 5 per cent and with taxes and building repairs at the level that they have been during the years 1928-1932.

However, forecasts as to the actual prices that may prevail are exceedingly difficult to make at the present time. Unfavorable factors are the slowing up of population growth and restrictions on world trade. However, it is likely that the dominant long-time factor in the price of good farm land will be the general price level for all commodities. If the pre-depression general price level is regained, then values well above those indicated by these calculations can be expected to prevail in the long-run.

Prior to 1920 farm operations were based on the assumption of a continued rise in land values. From 1900 to 1910 the average acre value of Minnesota farms, including buildings, rose from $25.57 to $45.60, an approximate rate of 6 per cent compounded annually. From 1910 to 1920 the average rose from $45.60 to $109.23, or at the approximate rate of 9 per cent compounded annually. These two decades were marked by rising prices for farm products. As long as prices showed a rising tendency, expectations of rising land values were natural. Since 1920 the old-time faith in a continually rising price level for farm products has been rudely shattered.

In buying a farm, it is a good rule never to make a deal until one has taken several weeks or months to study the proposition. Sellers may say that a particular bargain if not taken at once will never be offered again, but the chances are that another as good or better will come.

Do Not Buy on a Shoestring

Frequently there is an opportunity to buy a farm with no payment down, or only a small payment. However, in such cases, one usually agrees to pay a materially larger sum than would be necessary if a substantial down payment were made. In one instance the contract price was $9,000, with a very small down payment, whereas $7,500 would have closed the deal if the purchaser had had sufficient cash so that by placing a first mortgage the seller could have been paid in cash. In general, unless the farm is a very unusual bargain, one should not buy until a third to a half of the purchase price can be paid in a down payment and the personal property is clear of encumbrance.

It is usually unfortunate to buy a run-down place with a small down payment, as usually creditors will insist on taking all the income but a bare living. Because of lack of cash for building repairs, fencing, and necessary equipment, it is likely that the buyer will never get the place in good condition. In the case of unfavorable crop and price conditions, or sickness in the family, it may be impossible to go on with such a contract.

If the deal is agreed on, the two parties with the help of a lawyer

usually draw up what is known as a "contract for a deed." At that time the purchaser makes an earnest money payment. In this contract the seller agrees to give a deed when certain conditions have been fulfilled. If a substantial payment is to be made at the time of taking possession, the deed is ordinarily delivered at that time, with an abstract showing that the seller has a clear title to the property.

A purchaser should always get competent legal advice before signing any important papers, such as a contract for a deed or a mortgage. When buying real estate, one should always get legal advice as to whether the title is satisfactory, before closing the deal. Every community has one or more examples of persons who have lost large sums that a few dollars invested in competent legal advice would have saved.

If one has purchased a farm and finds it impossible to keep up the payments, he should never mortgage execution-exempt personal property[1] as security for unpaid interest and taxes. In almost any community there are cases where this has resulted in the loss of both the farm and all personal property. If one has a small outfit of personal property, he can usually make a new start as a tenant. If he has only his hands, he may be reduced to the status of a common laborer.

SUMMARY

1. Poor farms are usually over-valued as compared to good farms.
2. The following are aids in forming an opinion as to the value of a particular farm: soil maps, condition of growing crops, kind of crops raised, financial success of previous operators, amount of livestock that has been carried, opinions of neighbors, nature of buildings, location and the amount of unimproved lands.

   Soil Maps: Soil maps are valuable but do not tell the whole story.

   Condition of Growing Crops: Crops that look well are a favorable indication, but one should see a farm in both wet and dry seasons.

   Kind of Crops: In general, a large acreage of corn, wheat, alfalfa, and barley in good condition suggests a productive soil.

[1] The following is the principal execution-exempt property allowed by Minnesota law: A dwelling house with 80 acres of land provided the land is not located in an incorporated city or village, 3 cows, 10 swine, a pair of horses or mules, 100 chickens, 50 turkeys, 20 sheep and the wool therefrom, either in raw material or manufactured form, in yarn or cloth, food for all the stock previously mentioned for one year, one wagon, two plows, one drag and other farm utensils, including tackle for horses, not exceeding $300 in value, provisions for the debtor and his family necessary for one year's support, either provided or growing or both and fuel for one year; necessary seed for the actual personal use of the debtor for one season, not to exceed in any case 100 bushels each of wheat, rye, barley, potatoes, oats, flax, corn, and binding material sufficient for use in harvesting the crops raised from such seed; family pictures, school books, library, and musical instruments for the use of the family, all wearing apparel of the debtor and his family, all beds, bed sheets and bedding, all stoves, cooking utensils and other household furniture not exceeding $500 in value; and the earnings of the minor children of any debtor except for debts contracted for the benefit of the child.

Financial Success of Previous Operators: If previous operators have made money, it is a favorable indication. If previous operators have not been financially successful, make a thoro investigation before accepting poor management as the explanation of lack of success.

Amount of Livestock: Any evidence as to the amount of livestock that has been fed from the crops raised is a guide as to productivity.

Opinions of Neighbors: Opinions of neighbors, bankers, and others are valuable if one is certain that he is getting disinterested opinions.

Buildings: Good buildings are desirable, but good soil does much more to increase earnings than do good buildings.

Location: Location on a road that is open all year and is near good schools and churches is particularly important from the home standpoint. Good roads may have considerable effect on earnings.

Unimproved Land: A farm with a large proportion of tillable areas is much more valuable than one with a large amount of unimproved land.

3. One method of determining value is to assume that a farm is worth the sum upon which the customary share of the landlord will earn the rate of interest usually paid on a farm mortgage, after allowing for taxes, depreciation of buildings, and other expenses customarily paid by the landlord. For example, at 5 per cent, if the landlord's net return would average $400, the farm would earn interest on $8,000.
4. The method of determining the capitalized value is illustrated in detail by data from a particular farm. Data are given as to the capitalized value of 32 farms in southeastern Minnesota based on crop yields for 1928-1932, inclusive, and prices of products for August 1909 to July 1914. In spite of the fact that none of the farms are rated as distinctly inferior, the capitalized value ranged from $28.43 to $95.86 per acre.
5. Factors that largely account for the wide differences in capitalized value are variations in crop yields, in proportion of tillable land, in the overhead per acre for buildings, and in the taxes.
6. The "normal value" concept as used by the Federal Land Banks is explained, and attention is called to the fact that 1909-1914 prices for products do not necessarily give 1909-1914 land prices.
7. Unless one is getting an unusual bargain, he should not buy without being able to make a cash payment of one-third to one-half the purchase price. If one finds himself in a tight position, he should never mortgage execution exempt personal property to pay interest on real estate.